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MACROECONOMIC POLICY QUESTIONS: IMPLEMENTATION OF THE COMMITMENTS AND POLICIES AGREED UPON IN THE DECLARATION ON INTERNATIONAL ECONOMIC COOPERATION, IN PARTICULAR THE REVITALIZATION OF ECONOMIC GROWTH AND DEVELOPMENT OF THE DEVELOPING COUNTRIES; IMPLEMENTATION OF THE INTERNATIONAL DEVELOPMENT STRATEGY FOR THE FOURTH UNITED NATIONS DEVELOPMENT DECADE

Implementation of the Declaration on International Economic Cooperation, in particular the Revitalization of Economic Growth and Development of the Developing Countries and the International Development Strategy for the Fourth United Nations Development Decade

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I. BACKGROUND

1. The Declaration on International Economic Cooperation, in Particular the Revitalization of Growth and Development of Developing Countries, adopted by the General Assembly in 1990 at its 18th special session 1/ and the International Development Strategy for the Fourth United Nations Development Decade, 2/ also adopted in 1990, embody major commitments of the international community to accelerate the growth and development of developing countries in an expanding world economy. A preliminary assessment of their implementation was undertaken in 1992, in two separate reports to the General Assembly. 3/ The present report combines the assessments laid out in the two reports, which discuss a number of broad themes 4/ but are basically complementary and have common objectives. It was prepared in response to General Assembly resolutions 47/152 and 48/185.

II. MAIN CONCLUSIONS

2. The intensification of the globalization process in the first half of the 1990s confirms the validity of the premises of the Declaration and the Strategy - namely, that, in order to achieve sustained world economic growth and the revitalization of development, a global approach is required.

3. The priority aspects of development in the Strategy remain valid: poverty eradication, human resources development, protection of the environment, population policies, modernization of agriculture, and technological advance. The Earth Summit in Rio de Janeiro in 1992 and the adoption of Agenda 21 were major steps forward in furthering these priority aspects. The International Conference on Population and Development, the World Summit on Social Development and the Fourth World Conference on Women should - in the next 12 months - give considerable impetus to these priorities.

4. A key policy objective of both the Declaration and the Strategy - the completion of the Uruguay Round - has been achieved. It is crucial to ratify and implement the final agreement in ways that support sustained development, as envisaged in the Round.

5. Fears, expressed early in the decade, that increases in official development assistance would be increasingly difficult to mobilize, appear to have been well-founded. While determined efforts in many developed countries are necessary to increase aid flows, new or innovative forms of official development financing are also necessary to raise additional resources for development and should be explored.

6. The sluggish economic performance in the industrial countries in 1990-1993 did not provide the dynamic environment that the Declaration and the Strategy considered important to achieve rapid growth in developing countries. Primary commodity prices weakened considerably. Notwithstanding, the more dynamic developing countries continued to grow rapidly and provided an impetus to world trade. The outlook has improved more recently: recovery is gathering strength in developed market economies, which should facilitate growth in developing countries and provide more remunerative primary commodity prices during the

remainder of the decade. Yet prospects for improvements in living conditions in much of Africa in the short run remain bleak.

7. Considerable progress has been achieved in the objective stated in the Declaration of integrating the economies in transition into the world economy and the international economic system. On the institutional side, the multilateral system has been strengthened with the increased participation of the economies in transition, particularly in GATT, the International Monetary Fund (IMF) and the World Bank. On the other hand, their transformation into market economies has proved more difficult than envisaged and has been attended by declines in output, often of staggering proportions, and in living standards, since adequate social safety nets were not in place. Yet, by the mid-1990s several of these countries are making a turnaround.

8. The Declaration and the Strategy did not foresee the proliferation of conflicts and related emergency situations. They are diverting attention from long-term development needs and straining the resources of the United Nations system. Development will not occur in countries in conflict. Facilitating a resolution to such conflicts, along with appropriate relief, rehabilitation reconstruction and development, will remain a major task of the United Nations.

9. Given the generally pessimistic outlook for official development finance at a time of an ample supply of funds on commercial terms and an expansion of foreign direct investment, international cooperation should - inter alia - be geared to facilitating an increase in the flows of non-concessional funds and private direct investment towards an increasing number of developing countries. Official development financing could play a catalytic role in encouraging such capital flows.

10. The current debate on an agenda for development and the agreement resulting from it, the modalities of its execution and related policy initiatives should have a major bearing on the implementation of the Declaration and the Strategy.

III. PREMISES AND TRENDS

11. By 1990, many developing countries had suffered almost a decade of declining per capita output and income. The growth of these economies taken as a whole averaged only 3 per cent, or barely above the rate of growth of population and half the rate of growth of output in the 1970s. The overriding objective of both the Declaration and the Strategy was thus revitalizing the growth and development of the developing countries. Both, however, emphasized that this could be realized only in the setting of an expanding world economy. They also recognized the importance for a stable and fast-growing world economy of the policies of industrialized countries and stressed the need for a supportive framework of international policy. The need for integration of the economies in transition into the world economy was also emphasized.

12. Far from growing robustly, as premised in the Declaration and the Strategy, world output was effectively stagnant in 1991, grew at an annual rate of around 1 per cent in the next two years and is expected to grow by about 2.5 per cent

in 1994 - a weaker growth than in the 1970s and the 1980s. 5/ World trade also slowed but remained more robust than the growth of output.

13. The recent stagnation in the world economy was largely a reflection of the recession in the developed market economies which account for over 70 per cent of world output. During the period 1990-1993, these economies grew at an average annual rate of only 1 per cent, unemployment increased and economic hardships and social problems tended to strengthen inward-looking forces. Current forecasts suggest that they could grow by just over 2 per cent in 1994 and close to 3 per cent in 1995. Their medium-term prospects appear somewhat better.

Table. Growth of the world economy, 1990-1995
(Annual percentage change)

	1990	1991	1992	1993	1994	1995
World output	1.6	0.3	0.8	1.1	2½	3
Developed market economies	2.4	0.7	1.6	1.0	2¼	2¾
Economies in transition	-6.2	-8.8	-15.2	-8.6	-6	0
Developing countries	3.0	3.4	4.9	5.2	5	5
World trade	5.6	4.6	5.5	2.7	6	6½

14. In emphasizing the need for sustained growth in these economies, the Strategy called for coordination of their macroeconomic policies, in particular through effective multilateral surveillance, aimed at correcting their existing external and fiscal imbalances, keeping interest rates low and maintaining exchange rate stability. Although policy coordination is a declared objective of the seven major industrialized countries and although the IMF's role in multilateral surveillance is enshrined in its charter, in practice, individual countries followed their own policy objectives. Outside the European Exchange Rate Mechanism (ERM), policy coordination has generally been limited to broad declarations of intentions to consult one another, mainly through the mechanism of the summits of the seven industrialized countries. There has, for example, been little concerted action to lift these economies out of the recent recession.

15. In the event, monetary policy was relaxed and interest rates eased in all countries to varying degrees over the period, as individual countries, with the notable exception of Japan, found this to be the only way of stimulating the economy. Although exchange rates fluctuated, the degree of instability was not considered, until recently, unacceptably large and the monetary authorities were prepared to undertake occasional interventions. In the area of fiscal policy, there was a remarkable convergence of emphasis in that almost all countries

strived for fiscal consolidation, with varying degrees of success. In general, however, after a period of significant improvement in the 1980s, fiscal deficits have widened over the past few years, a factor that has inhibited the use of fiscal stimulus to combat the recession.

16. The sagging growth of the world economy in the early years of the decade was also reflected in a large decline in the economies in transition. Output in these economies taken as a whole fell by over 30 per cent during 1990-1993 and will probably fall by another 6 per cent in 1994. A few countries in eastern Europe are beginning to grow again. Nevertheless, the associated fall in income has caused enormous hardship for the bulk of the population of these countries; unemployment increased sharply and other social problems surged.

17. The impact of the fall in output in these countries on the rest of the world has, however, been relatively small: they accounted for a small fraction of world trade and investment flows at the beginning of the transition. Only a few developing countries were severely affected by those changes, which impaired their traditional trade and aid links with these economies. 6/ Some of the developing countries recovered from the setback remarkably quickly. 7/

18. The Declaration set the reactivation of growth and development of the developing countries as its overriding objective. Similarly, the Strategy placed "a surge in the pace of economic growth" in the developing countries as one of its most important goals. While recognizing a great diversity of growth objectives among countries, it suggested that a rate of economic growth on the order of 7 per cent was a necessary condition for the transformation of the economy, rapid increase in employment, eradication of poverty and generation of the resources needed for the protection of the environment.

19. From the point of view of this objective, the growth experience of the developing countries in recent years has been encouraging. The growth in their aggregate output accelerated from 3 per cent in the 1980s to over 5 per cent in 1993 and is projected to remain at the latter level in 1994 and 1995.

20. This improvement in growth is remarkable for two reasons. First, it was achieved at a time when the rest of the world economy was sliding into a recession. Secondly, the growth affected a large proportion of the population of the developing countries. For example, during the years 1992-1993 countries where per capita output increased by 2 per cent or more accounted for over 70 per cent of the population of the developing world. Countries where it increased by 5 per cent or more accounted for 40 per cent.

21. Much of the growth originated in South and East Asia and China, which also account for much of the population of the developing countries, including most of the poorest. Six countries in the region (Indonesia, Malaysia, Singapore, Taiwan Province of China, Thailand and Viet Nam) grew at a rate of around or over 7 per cent during 1990-1993. In China, total output increased at an annual rate of 11.5 per cent during 1990-1993 and will probably grow by 10 per cent in 1994. The aggregate output of South and East Asia and China increased at an annual rate of about 7 per cent during 1990-1994. The population of the region accounts for almost 70 per cent of the population of the developing countries.

22. Growth has picked up in Latin America. The regional output grew at an annual rate of 2.7 per cent over 1990-1993, compared with 1.4 per cent in the 1980s, and a growth of 3 per cent is forecast for 1994. This allowed only a marginal improvement in per capita output after a decade of stagnation and decline.

23. In Africa, which contains most of the countries which have not been growing, total output increased at a rate of about 1.3 per cent during 1990-1993 and is expected to grow by under 3 per cent in 1994. With population increasing at a rate of 3 per cent, per capita output thus declined, as it has for the past decade in a continent that accounts for one sixth of the population of the developing countries. Viewed against the goals of the Strategy, the absence of improvement in growth and the uncertainties about prospects in the medium term are quite disturbing.

24. In Western Asia, the Persian Gulf crisis was a setback at the beginning of the decade. Aggregate output was unchanged in 1991 but recovered faster than expected. For the period 1990-1993 the growth of output averaged about 3 per cent, and a similar rate of growth is expected for 1994. Weak oil prices greatly contributed to the slow growth and most projections suggest that they will remain comparatively low over the medium term.

25. In sum, the expansion of output called for in the Declaration and the Strategy has taken place in a fairly large number of countries and has affected a large majority of the population of the developing countries. The acceleration of growth has been significant, but additional efforts are required to come close to the indicative target of 7 per cent growth for these countries as a group. Besides, measurable expansion of output has remained far out of reach for numerous developing countries and a significant proportion of that population.

26. Adjustment and economic reforms, many of them begun in the 1980s, have been sweeping the developing countries in the early 1990s. In many cases, trade has been greatly liberalized, with import restrictions eased and biases to exports corrected in varying degrees. Trade liberalization among developing countries, in fact, contrasts sharply with the virtual absence of it in the industrialized economies in recent years, though trade restrictions in these economies are, on average, lower than in the former.

27. Reforms have been undertaken in other areas. In many cases, exchange restrictions have been greatly relaxed. In a fairly large number of countries, fiscal deficits have been reduced. Privatization of State-owned enterprises has spread rapidly. The net results of these reform measures are not, however, always clear. In a number of countries, especially in Latin America, the reforms have led to a revival of confidence of the international financial markets in these economies and have contributed to growth. In others, they are laying the foundations for growth. In many others, however, especially in Africa, the results of years of attempted reforms have been disappointing in terms of economic growth. 8/

IV. WORLD TRADE AND THE TRADING SYSTEM

28. Both the Declaration and the Strategy viewed an open international trading system and fast growth of world trade as critical to the growth of the developing countries. They called for efforts to combat protectionism and to strengthen the multilateral trading system.

29. The growth of world trade slowed down along with that of world output in the early 1990s. Nevertheless, world trade remained far more robust than world output. During the period 1990-1993 the volume of world trade expanded at an annual rate of over 4 per cent, or six times as fast as world output (0.7 per cent). Growth slowed to under 3 per cent in 1993 but is expected to pick up and reach 6 per cent in 1994.

30. A major feature of world trade in the past few years is that much of its growth has been accounted for by the growth of trade of developing countries. Exports of developed market economies grew at only 3 per cent a year during 1990-1993. By comparison, exports of developing countries expanded by over 8 per cent a year and imports grew even more vigorously. With a 25 per cent share in world trade in 1990, they accounted for half the growth of world trade during the period. In 1993, they accounted for almost 80 per cent of the growth of world trade, as trade of the developed market economies stagnated. These trends support the view expressed in the Strategy that developing countries could provide a strong stimulus to the world economy.

31. Exports of the South and East Asian region increased by around 13 per cent a year during 1990-1993, and a similar increase is expected for 1994. Imports into the region grew almost as quickly. China's exports grew at an annual rate of 15 per cent, while its imports increased at some 25 per cent. Latin America's exports grew quickly but less spectacularly than Asia's. The volume of Africa's exports increased at a rate of around 4 per cent but most countries still suffered a decline in foreign exchange earnings over the period, as export prices continued to fall.

32. In what was the most important follow-up of the commitments made in the Declaration and the Strategy, the Uruguay Round of multilateral trade negotiations was successfully concluded in December 1993. When fully implemented, the agreement reached will significantly liberalize trade, including trade in sectors which had long been kept outside the purview of normal GATT rules, such as agriculture, textiles and services, many of which are of export interest to developing countries. The agreement on a new dispute settlement mechanism, increased transparency of the safeguard and anti-dumping measures, and the setting up of the World Trade Organization (WTO) will greatly strengthen the multilateral character of the trading system as well as liberalize trade. 9/ A speedy ratification at the national level of the agreements reached is now the essential next step.

33. In the short term, some countries are expected to be adversely affected by trade liberalization. As discussed below, food-deficit countries will pay more for their imports as export subsidies are lowered. Moreover, the least developed countries tend not to have the expertise or the infrastructure in place that would enable them to exploit new export opportunities as rapidly as

the higher-income developing countries, and so their short-term gains will tend to be comparatively smaller.

V. REGIONAL INTEGRATION SCHEMES AMONG DEVELOPING COUNTRIES

34. The Declaration emphasized regional economic integration among developing countries as a means of expanding trade and investment. These countries have been actively pursuing this objective in recent years and intraregional trade has been increasing remarkably rapidly under some of the schemes of regional integration, especially in Latin America.

35. Perhaps the most important development of the past few years has been the creation of the first developed/developing country trade bloc. The passage in November 1993 of the North American Free Trade Agreement (NAFTA), which joined Mexico to the already established Free Trade Agreement between Canada and the United States, was thus a landmark event. Meanwhile, regional integration in Latin America has continued apace. On 26 March 1991, the Governments of Argentina, Brazil, Paraguay and Uruguay committed themselves to the formation of a tariff-free common market, the Southern Cone Common Market, or Mercosur. Trade within the group has been increasing rapidly over the past years. On 1 January 1992, members of the Andean Pact - Bolivia, Colombia, Ecuador, Peru and Venezuela - agreed to a more open approach to integration. The integration process has also been reactivated in Central America, one example being the revival of the Central American Common Market. Other agreements - especially bilateral ones - have sprung into being as part of the area's growing trend towards "open regionalism" - i.e. the process of growing economic interdependence at the regional level, geared towards enhancing the competitiveness of the countries of the region and constituting building blocks for a more open and transparent international economy. Open regionalism should serve as a defence mechanism against eventual protectionist pressures in markets outside the region. 10/

36. In Africa, too, attempts at forging new trading arrangements and reviving old schemes continue. In 1991, the Organization of African Unity decided to establish the African Economic Community to be set up in stages over 34 years, beginning with the stabilization of tariff and non-tariff barriers. In August 1992, the summit meeting of the Southern African Development Coordination Conference agreed to establish the Southern African Development Community, one of whose objectives is to progressively eliminate obstacles to the free movement of goods, services, capital and labour. More recently still, the Central African Customs and Economic Union began implementing fiscal and customs reforms, while franc zone members agreed - concurrently with their recent devaluation - to intensify regional cooperation. Meanwhile, the Preferential Trade Area for Eastern and Southern Africa was transformed into the Common Market for Eastern and Southern Africa with a four-phase plan to establish a full monetary union with a common currency.

37. Given their outward-looking orientation, the countries of South and East Asia were extremely active in the Uruguay Round and continue to view the trend towards regionalism in industrialized countries - particularly in North America and Europe - as a potential threat to their exports. The major bloc-building

initiative in Asia has thus been basically a response to the emergence of NAFTA and the European Union. In 1992, members of the Association of South-East Asian Nations - Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand - agreed to take the first steps towards the creation of a regional common market. While it is not yet clear whether there will ever be an Asian "bloc", the potential for a region-wide grouping based on open regionalism appears to be increasing.

VI. COMMODITY PRICES

38. Commodity prices have continued to decline, as they did for most of the 1980s. In nominal, dollar terms, non-fuel commodity prices declined at a rate of 4.4 per cent in the period 1991-1993. In real terms (dollar prices deflated by unit values of manufactured exports of developed market economies), the decline was only slightly faster - 4.6 per cent - because increases in the prices of these exports were moderate. Nevertheless, in the first half of 1993, real prices of many export commodities fell to their lowest levels in over three decades.

39. Weak commodity prices were generally the result of excess supplies and weak demand in many industrial-country markets. Offsetting these trends, however, was the rapid growth in demand for primary commodities in several developing countries. China and the fast-growing countries in South and East Asia now account for a significant proportion of the exports of primary commodities from the developing countries.

40. All international commodity agreements, except the International Natural Rubber Agreement, have ceased to function as mechanisms to stabilize prices. The International Cocoa Agreement was renewed in July 1993 without the buffer stock arrangement of previous agreements and without the participation of Indonesia (the world's fourth largest producer) or the United States, which accounts for 25 per cent of the world's cocoa consumption. Similarly, a new five-year International Coffee Agreement was adopted in early 1994 but the system of export quotas was dropped from it. The United States, the world's largest coffee-consuming country, pulled out of the International Coffee Organization in 1993 after objecting to "non-market" price-stabilization mechanisms in the previous agreement. The International Natural Rubber Agreement, which was scheduled to expire in December 1993, was extended for an additional year while negotiations continued on a successor agreement. In general, international commodity agreements as instruments of price stabilization have fallen far short of the aspirations of the Strategy.

41. The declining importance of such agreements contrasts sharply with the recent successes of coffee and aluminium producers in boosting prices. The Association of Coffee Producing Countries agreed in October 1993 on an export retention scheme designed to withhold up to 20 per cent of exports, depending on the levels of market prices. Coffee prices doubled in the first six months of operation of the retention scheme. In 1994, the worst frost in Brazil since 1981 is expected to reduce Brazil's supplies and thus further helped to boost prices. Aluminium prices rose after major aluminium producers in North America, Europe and Russia agreed, in January 1994, to cut smelter capacity.

42. Even though commodity prices have on average improved in 1994, the prospects of a sustained long-term increase in commodity prices in real terms appear dim. For many developing countries - though not all - the solution to the problems posed by weakening commodity prices lies in diversification, both into producing other commodities and, more importantly, into manufacturing. While some commodity-dependent countries have recently started to diversify into new agricultural and horticultural products, progress towards industrialization, especially in Africa, has been minimal.

VII. DEVELOPMENT FINANCE FOR DEVELOPING COUNTRIES AND THE PROBLEM OF EXTERNAL DEBT

43. Development finance has been a major element in all past Strategies, and international commitments contained in them were reiterated in both the Declaration and the current Strategy. Both documents also called for a durable solution to the problem of external debt of the developing countries.

44. There has been a remarkable change since 1990 in the aggregate amount of external financial resources available to the developing countries. Over the period 1983-1990, the developing countries were annually transferring abroad financial resources of about $20 billion. 11/ Practically for the first time since 1983, the net transfer turned positive in 1991. This net inflow rose to over $50 billion in 1993, or three times the flow in 1983. Much of this turn-around occurred in Latin America where the net inflow rose to about $19 billion in 1993, a sharp swing from the $26 billion net outflow in 1990. In 1993, Western Asia received close to 40 per cent of the net transfer, followed by Latin America with 35 per cent, while sub-Saharan Africa received only about 16 per cent.

45. The bulk of the increase in the net transfer of financial resources to the developing countries was accounted for by private flows. Net transfers through private short-time borrowing on international capital markets together with the return of flight capital rose from $2 billion in 1990 to $43 billion in 1993; net transfers through foreign direct investment increased from $6 billion to $27 billion. However, net transfers through official flows declined from $16 billion in 1989 to $15 billion in 1993. 12/

46. The recent surge in the flow of private capital to the developing countries has been one of the most significant developments on the international economic scene. It reflects primarily a revival of confidence of capital markets in these economies, especially in Latin America, but is also partly explained by deregulation of capital markets. This phenomenon goes a considerable way towards relieving the capital constraints, emphasized by the Declaration and the Strategy, in a number of these economies, even though in some cases it has created problems of macroeconomic management. These flows have, however, shunned many developing countries, mainly in Africa, which therefore remain critically dependent on official flows.

47. Aid to developing countries comprises many more items, such as grants-in-kind, scholarships and technical assistance, than are included in official net financial transfers. Total official development finance amounted

to $67 billion in 1993. Of this, $57 billion was net official development assistance (ODA). 13/ The growth of ODA has fallen far short of the goals set in the Declaration and the Strategy. In real terms, ODA from the Development Assistance Committee (DAC) members of the Organisation for Economic Cooperation and Development (OECD) grew at an annual rate of 2.7 per cent in the 1980s. 14/ It increased at a rate of 2.2 per cent during 1990-1992 but fell by 7.7 per cent in 1993, yielding an actual decline over the period 1990-1993. 15/ ODA as a percentage of GNP of donor countries was 0.29 per cent in 1993, the lowest since 1973, and averaged 0.32 during 1990-1993, or the same as for most of the 1980s and less than half of the Strategy target of 0.70 per cent. Some countries - Denmark, the Netherlands, Norway and Sweden - have for a long time exceeded the 0.7 per cent target, while some of the largest donors now have an ODA/GNP ratio of around 0.30 or less, with the ratio of the largest donor, the United States, being 0.20 per cent. ODA from the oil-exporting Arab countries has declined sharply over the past decade. In terms of their GNP, however, it remains substantial.

48. Political support for development assistance has been waning in almost every donor country. The past few years have seen a continuation of this trend, and there have been new efforts by aid administrations in some countries to pare down assistance programmes. The reason for the decline in support for foreign assistance lies in part in budget constraints, forcing cuts in domestic spending programmes, which make the preservation of external assistance a difficult political task. Increased attention to perceived failures of development assistance has also contributed to the erosion of the case for aid, as did the end of the Cold War, which supplied some of its political rationale. Unless perceptions in donor countries change, it is difficult to envisage a significant general revival of support for external assistance in the near term.

49. The main reasons behind the flow of financial resources from the developing countries in the 1980s were the large debt-service burden and the drying up of private lending following the outbreak of the debt crisis. For a number of countries the debt problem has eased over the past few years, but in many others it is far from over.

50. The total external debt of the capital-importing developing countries has increased by some $200 billion since 1990, reaching $1.5 trillion in 1993. 16/ Such growth of the stock of debt is not by itself a cause for concern, so long as the debt-servicing capacity increases or the financial markets continue to believe in the future capacity of the debtors to service the debt. During 1990-1993, exports of the capital-importing developing countries grew rapidly enough to lower the ratio of debt to exports from 196 per cent to 185 per cent. 17/ The actual debt-service ratio - the ratio of debt-service payments to exports - also declined, from 22 per cent to 20 per cent. In 1993 both the ratios of debt-to-exports and debt-service-to-exports were far below their peaks of 265 per cent and 32 cent, respectively, reached in 1986. These improvements, and the confidence of the financial markets that they will continue, have greatly eased the atmosphere of crisis surrounding developing-country debt.

51. The success of the international debt strategy lay mainly in defusing the crisis involving commercial bank debt. Negotiations between debtors and

creditor banks carried out under the Brady initiative have restructured a large volume of debt of some of the heavily indebted countries. The success of these restructuring exercises, often accompanied by structural adjustment, has not been so much an immediate reduction of the debt burden, which has been rather small, as the restoration of credit-worthiness of these economies, resulting in the resumption of private inflows.

52. Efforts at reducing bilateral official debt, owed mainly by low-income countries, have, in parallel, been made through the Paris Club arrangement. This is an informal meeting of creditor Governments to work out agreed relief to debtor Governments on a case-by-case basis. A large number of developing countries - about two thirds of the low-income countries, mostly sub-Saharan - have had their bilateral official debts rescheduled under Paris Club agreements. In 1991, Paris Club creditors increased the concessionality of the debt restructuring under the so-called "enhanced Toronto terms". This provided for 50 per cent reduction of the net present value of the consolidated debt-servicing of the poorest highly indebted countries. There is nevertheless a widely shared view among creditor Governments that even these terms are inadequate to relieve the debt overhang of most countries. At the summit meeting of the seven major industrialized countries in July 1993, the participants encouraged the Paris Club to review the question of debt relief. Recently the Paris Club has shown a greater degree of flexibility in its treatment of debtor countries. For example, in early 1994, following the devaluation of the CFA franc, enhanced Toronto terms were accorded to a number of debtors whose income levels could not normally have warranted such terms.

53. In sum, while the overall trend is one of easing the debt problem, a considerable number of developing countries, mostly in Africa, remains constrained by a debt overhang. The latter still inhibits significant flows of private capital, including foreign direct investment.

VIII. SECTORAL DEVELOPMENTS

A. Science and technology

54. Policy formulation in the early 1990s in the fields of science and, particularly, technology became increasingly influenced by the expanding role assigned to the private sector, including foreign direct investment, and the new emphasis given to human development and environmental protection (green or clean technologies). Other forces, such as the globalization process and national efforts to diversify production structures and promote exports, have also influenced technological developments in many developing countries.

55. A new phenomenon that has, since the second half of the 1980s, speeded up the absorption and often the transfer of technology from developed economies has been privatization, particularly of large public enterprises, including public utilities. Privatization has usually been accompanied by new investments and rapid modernization of affected enterprises.

56. Spending on science and technology has begun to increase in the developed economies, as enterprises recover from the stagnation of the early 1990s, and

efforts at collaborative arrangements as a means of sharing costs and reducing risk are being intensified. This provides an opportunity for enterprises in developing countries and the economies in transition to become part of global science and technology efforts. 18/

57. On the whole, research and development should receive a stimulus from the implementation of the provisions of the Uruguay Round. The agreement provides for greater protection of intellectual property rights which is likely to raise the costs of using some of the existing but also new technologies in many developing countries. On the other hand, greater protection for proprietary ideas may increase the incentives for enterprises with leading-edge technologies to form alliances with domestic producers in the rest of the world.

58. Progress in developing countries towards creating capacity to generate science and technology from scientific and technological personnel and to transform developments in science and technology into products and processes that would foster sustainable development has been uneven. Indeed, only a limited number of developing countries has adopted a systematic approach to these issues, and their emphasis and successes vary substantially. The Republic of Korea, for example, has been successful in utilizing imported technology in industrial development and has formulated policies to encourage international and domestic collaboration in science and technology. However, many domestic firms are seeking independent science and technology strategies and object to collaborating with prospective competitors. 19/ Brazil and Israel have extensive governmental research and development institutions but are struggling with problems of achieving greater efficiency and appropriate incentives. 20/ A number of developing countries, including Argentina and Mexico, have opened high technology sectors to foreign companies, most prominently in telecommunications. There has been an increasing number of examples of collaboration among developing countries, both at the governmental level, as in collaboration in space technology between Brazil and India, and at the private level, as in the role of a Mexican firm in modernizing Cuba's telephone system.

59. By some measures, the technological gap between developed and developing countries has widened, especially for middle- and lower-income developing countries. 21/ While privatization efforts may stimulate a greater overall flow of science and technology resources to developing countries and foster domestic activities in a number of countries, such efforts are unlikely to reach many of those countries most in need of improvements in the areas of biomedical research, communications and transportation technologies, food production and environmentally sound production technologies. Nowhere is this need greater than in agriculture and food production in Africa. Raising yields, conserving soil and water, diversifying away from crops whose returns have fallen over the long term, and raising rural incomes depend on both investment and new technology. Thus, new international initiatives may be needed to ensure wider access to new technologies while preserving and expanding the benefits of private-sector actions.

B. Agriculture

60. The Strategy points out that acceleration of development in developing countries calls, in many cases, for a special focus on policies and measures aimed at raising agricultural output and at strengthening food security and self-reliance in food. It also emphasizes liberalization of trade in agriculture, in particular the removal of barriers to developing countries' exports.

61. During 1990-1993, agricultural production in developing countries increased at an annual rate of 2 per cent 22/ which was substantially lower than in the 1980s (3.4 per cent). Growth rates varied from under 1 per cent in Latin America, to over 2 per cent in Asia, with production in Africa growing at 1.5 per cent. Given the preponderance of agriculture in African economies, the slow growth in agricultural production exemplifies both the difficulties of raising output and the critical need for it. Agricultural production on that continent is still heavily dependent on the weather, and adverse weather conditions affected output. Although cereal yields have increased dramatically over the past 30 years in such countries as China, India and Mexico, similar progress in Africa has not generally been seen, and in some cases yields have fallen in the past decade.

62. Food output per capita remained practically unchanged over the period 1990-1993 in the developing countries as a whole but declined in Africa at a rate of 1.5 per cent. The food import requirements of the continent increased as a consequence. However, cereal production increased in low-income food-deficit countries as a whole, though only modestly. 23/

63. World stock of cereals increased from 305 million tons in 1990 to 365 million tons in 1993. The developed market economies still account for over 50 per cent of world stocks. A significant proportion of the increase (around 20 million tons) over the period took place, however, in the developing countries. World food stocks as a percentage of world consumption remained over the 17-18 per cent range, which is considered prudent for world food security.

64. One of the main achievements of the Uruguay Round of multilateral trade negotiations was an agreement on a significant liberalization of trade in agriculture. Agricultural exports of many developing countries will benefit, reducing a long-standing concern of these countries about barriers to these exports in industrial countries. Liberalization may, however, also raise prices in some cases, increasing import costs to food-deficit countries, many of which are developing countries. Protecting the latter from any large increase in the cost of food imports thus needs to be part of international policy.

C. Industry

65. The Strategy stressed that industrialization was a central element in the economic transformation of most developing countries and in reactivation of development in the 1990s. It indicated a range of growth of 8-10 per cent a year which many developing countries could aim for.

66. In the developing countries as a whole, manufacturing production accelerated from an annual rate of 5.6 per cent in the 1980s to around 10 per cent in the first three years of the 1990s. The remarkable growth in the early 1990s is really a matter of some regional success stories rather than a general upsurge in industrial output.

67. In Latin America, after almost a decade of stagnation, manufacturing output increased, along with a general economic recovery, by around 3 per cent a year during 1990-1993. In Asia, excluding China, it increased by around 10 per cent a year and in China by almost 20 per cent. On the other hand, in Africa manufacturing output remained virtually unchanged.

68. In many of the countries where industrialization is making rapid headway, policy changes have been responsible. They included both general liberalization of the domestic economic regime and a new shift towards greater openness in industrial development policies. In Latin America, for example, liberalization and openness have in many cases taken the form of regional integration involving reduction of barriers to regional trade and emphasis on specialization, which contrasts with the generally indiscriminate import-substitution policies of the past. In South and East Asia and China rapid industrialization is being fuelled by intraregional flows of investment and a shift in the location of production facilities across borders, in response to rapidly changing comparative advantages, investment in infrastructure and further liberalization of imports and financial markets. In many countries, emphasis on the development of human capital as well as on imports of technology is rapidly building a technological base for further industrialization.

IX. THE HUMAN CONDITION

69. Establishing a mutually reinforcing relationship between economic growth and human welfare and strengthening that relationship was a principal theme in the Strategy. Policies and programmes, at both national and international levels, to alleviate poverty, reduce significantly extreme poverty and the gap between rich and poor countries, eliminate chronic hunger and famine, reduce malnutrition among children and the incidence of diseases originating from undernutrition and malnutrition, prevent the emergence of epidemic diseases and the spread of AIDS, provide education to all children and reduce illiteracy, especially among females, reduce homelessness, drug abuse and the incidence of crime were all highlighted in the Declaration and emphasized in the Strategy.

70. The fundamental importance of economic growth to improving many of these aspects of the human condition was also recognized in those documents. Rapid and sustained growth would raise incomes, provide productive employment to the fast-rising age cohorts seeking employment, break down rigidities and provide greater social mobility and permit Governments to mobilize resources both to promote further growth and to provide greater social security to the public. Indeed, sustained rapid growth in a number of countries in South and East Asia and China, and a few in Africa, such as Botswana and Mauritius, and economic stagnation and anaemic growth in most of Africa south of the Sahara attest to the validity of the contention that economic growth is fundamental to improvements in the human condition.

A. Famine, hunger and poverty

71. Famine has been almost permanently banished from countries like Bangladesh, China and India where it had periodically devastated the poor, even in recent decades. This has been achieved through income growth and the build-up of infrastructure and by having Governments that can be held accountable by the public for not avoiding such devastations. In contrast, famine continued to wreak havoc in Africa in those countries where there has been strife, including Angola, Ethiopia, Mozambique, Somalia and Sudan, and elsewhere in Africa in those countries where there is little infrastructure to withstand continued periods of drought, where incomes have fallen and bureaucracies are weak, and where Governments in some cases are not yet fully accountable to the people. Even where famine has been prevented, chronic hunger is common.

72. Civil wars in Afghanistan, Angola, Armenia, Azerbaijan, Georgia, Haiti, Mozambique, Rwanda, Somalia, Sudan and the former Republic of Yugoslavia have denied people opportunities to earn a living, destroyed habitations and other infrastructure, driven people from their homes and reduced millions to destitution and hunger. At the end of 1993, there were some 16 million refugees and millions of displaced persons, all victims of civil war and disorder. During the two years ending December 1993, some 3 million refugees returned home in Afghanistan, Cambodia, Ethiopia, Guatemala, Mozambique, Somalia, South Africa and Tajikistan. The resettlement of refugees in Central America has been almost completed.

73. National Governments, intergovernmental organizations and both national and international voluntary agencies have been active in reducing the severity of the consequences of these devastations on the affected people. The Governments of Iran and Pakistan in Asia, Kenya, United Republic of Tanzania, Uganda, Zaire and Zambia in Africa, Austria, Germany and Italy in Europe have provided haven to refugees fleeing their homelands. The United Nations High Commissioner for Refugees and the United Nations Children's Fund (UNICEF) have been in the forefront of intergovernmental organizations providing relief. National voluntary agencies and individuals have contributed greatly to these efforts. Among the largest international voluntary agencies are the International Red Cross, Médicins sans Frontières and Oxfam.

74. Extreme poverty, which is systemic and not the result of war and other conflict, is still the lot of perhaps over 400 million people. The preponderant majority of them live in parts of China, south Asia and sub-Saharan Africa. A small proportion, but a significant number, of the population in the economies in transition have fallen into extreme poverty consequent upon the breakdown of former social security systems and rapid inflation. In developed countries, there are small yet sizeable pockets of extreme poverty caused by drug abuse, early single parenthood and failure to obtain and hold onto employment. These problems are amenable to improvement by economic and social policy, although not in the very short term. Resumption of economic growth in Africa, the stabilization of prices, more orderly markets and faster growth in economies in transition and more effective policies of social welfare in developed market economies are steps necessary to improve these conditions of extreme poverty. The shape the reforms should take is much in debate in several developed

countries. Even by an optimistic assessment, improvements are not likely to be seen earlier than the medium term.

75. Aggregate global food production is adequate to feed the world's population, but supplies are distributed highly unevenly. Some 780 million people still do not have at their disposal enough nourishment to meet their daily energy needs and thus go hungry. Some 2,000 million people suffer the consequences of deficiency in various micronutrients: anaemia because of an inadequacy of iron, blindness because of an inadequacy of vitamin A, and goitre because of an inadequacy of iodine. In 1993-1994, Afghanistan, Angola, Armenia, Azerbaijan, Bosnia Herzegovina, Burundi, Cambodia, Chad, Eritrea, Ethiopia, Georgia, Haiti, Iraq, Kenya, Lao People's Democratic Republic, Lebanon, Liberia, Malawi, Mongolia, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Tajikistan and Zaire are expected to require exceptional or emergency food assistance. 24/

B. Distribution of global output and domestic income

76. There are three discernible tendencies in the distribution of world output among countries, although there is no firm statistical evidence to trace changes between 1991 and 1994. The proportion of world output originating in Africa south of the Sahara was lower in the early 1990s than in 1981. 25/ The proportion of world output originating in countries with the highest per capita income, whether taken as the richest quintile or the richest decile of the world population, increased as economic growth continued in North America, Japan and western and northern Europe. Finally, there was some increase in the share of world output originating in the second, third, fourth and fifth deciles of the world population - at the bottom end of the income scale - as the economies of China and India sustained their comparatively rapid rates of economic growth.

77. There is much less evidence on changes in the distribution of income among households in each country during the early years of the decade. Where there was a marked growth in employment and incomes in China, Indonesia, Mauritius and Thailand, income distribution among households probably became less uneven. In the African economies in which both public-sector and urban industrial employment fell, top incomes were probably flattened in the process of bringing down the average. The loss of food and other subsidies in several developing economies undertaking structural adjustment programmes may have reduced real incomes among those at the lower end of income distribution. Better control of inflation in Latin America, except Brazil, reduced the loss of purchasing power in the hands of fixed-income earners and those in lower income groups. In contrast, rapid inflation and the breakdown of social security systems probably increased disparities among household incomes in economies in transition. In most developed countries, persistent long-term unemployment and rising opportunities for earning high incomes, in all probability, made income distribution more uneven than earlier.

C. The AIDS epidemic

78. The AIDS epidemic has grown into a health problem of immense proportions. Of a total of some 12 million people world wide infected with HIV, some

7 million are in sub-Saharan Africa, 2 million in South and South-east Asia and 1 million in Latin America and the Caribbean. 26/ The total number of persons infected is projected to increase to 26 million in the year 2000, with increases in Asia and Africa being dramatically more rapid than in the rest of the world. The incidence of infection tends to be highest among age groups 25-34 years for men and 25-29 years for women - child-bearing years. 27/ There is a tendency for the more educated and the skilled in these age cohorts to be more commonly infected than others. Their infection also results in large numbers of infants being borne with AIDS. 28/ This incidence of infection will also increase the proportion of total deaths in the prime working ages significantly. 29/

79. The costs, both economic and social, of the epidemic are high. Persons with substantial investments in their education and training are lost to the economy. Care for the infected consumes substantial resources, denying the already meagre health-care resources in poor countries to other uses. The death of working populations will leave large numbers of dependents, who are denied both emotional and material care.

D. Population

80. Preparatory work for the International Conference on Population and Development, to be held in Cairo in September 1994, has already highlighted the significance of population dynamics in processes of economic and social development during the decade. 30/ Some 90 million persons, 93 per cent of them in developing countries, will be added to the population of the world each year during the decade, contributing 1,000 million people in the short space of 11 years. Largely as a result of remarkable increases in adult life expectancy, the population of the world is growing older; the median age of 21.6 years in 1970 has risen to 24.2 years in 1990. Average life expectancy at age 60 years increased by 20 per cent or more in Belgium, Canada, Finland, France, Germany, Italy, Japan, Mauritius, Spain and Switzerland. However, in developing countries as a whole, where fertility decline set in later and where great achievements have been recorded in reducing infant and child mortality rates, populations remain young, with potential for further growth very high. Whereas in Europe, one person in five in 1990 was under the age of 15 years, in much of Africa, nearly one person in two was under 15 years of age. Unlike in Asia and Latin America, this proportion has not yet begun to fall in most of Africa. Population migration from rural to urban areas and within rural areas and urban areas continues to gather momentum. Migration between countries of those seeking better economic opportunities has increased in significance.

81. These changes individually and in combination create problems of immense complexity, calling for further policy responses of various kinds. In the aggregate, the pace of population growth will raise the density of population and will draw on natural resources at a rate that may have a negative impact on the long-term health of the environment. Young populations need to be educated and economies need to grow at such rates and in such a fashion as to absorb large increases in the labour force into productive employment. At the same time, rising proportions of those 65 years and older make new claims on health care services. Migrating populations settling in more dense habitats require

large expenditures on infrastructure, including housing, water supply and sewage disposal.

82. The various policy responses to these questions were outlined in the reports 31/ of the five regional conferences on population and development, convened in April and May 1993. There has been a greater commitment to the adoption and implementation of population policies. In Africa, commitment to population policies has been of long duration in a number of countries, including Algeria, Egypt, Mauritius, Morocco and Tunisia. In Burundi, Botswana, Kenya and Zimbabwe, policies to reduce fertility have been adopted more recently. In Nigeria, the Government has recently increased budget provisions for population. The Governments of Malawi, Namibia and Sudan are formulating relevant policies and programmes.

83. In virtually all countries, especially in Asia and Latin America, there has been a marked shift to improve the quality of family planning services from a previous strong emphasis on achieving quantitative targets. There has also been greater participation by voluntary agencies in implementing population policies. Negative economic growth and stagnation in many developing economies, limits placed on governmental expenditure in order to stabilize prices and the onset of the AIDS epidemic have all constrained the supply of resources for population policies, among others. At the international level, expenditure (in current prices) on operational activities financed by the United Nations Population Fund (UNFPA) fell marginally in 1991 and 1992 and sharply in 1993, from $172 million to $128 million. 32/

84. Population policies and programmes cannot, however, be separated from other development policies. It is not simply that population dynamics govern and are governed by movements in other parts of the economy and society; public health, girls' education, employment opportunities (particularly for women), and the regional distribution of growth all determine many features of the demographic problems of a country. The rate of growth of the labour force and the age composition of the population and patterns of migration deeply affect the rates and patterns of growth and development in the economy. Population policies are also integral to the total development process, because they heavily affect the demand for those resources that comprise the physical and man-made environment. The migration of people between already densely populated neighbouring countries has also begun to affect other economic and political relations between them. These considerations comprise some of the principal questions before the Cairo Conference.

E. Human resources development

85. In these early years of the decade, interest in human resources development, especially education, has been intense in virtually every country. In some developing countries, in both sub-Saharan Africa and South Asia, the major problem is that of raising levels of literacy, more so among females than males. In others, a more pressing problem is that of meeting society's demand for education at higher levels, especially at the tertiary level. Virtually all developing countries experience the problem of generating employment opportunities with rewards commensurate with levels of education and the

prospective employees' expectations. In economies in transition, there is urgent need for persons with the education and know-how to function in new institutional settings. In almost all countries, including developed economies, there is great concern about a lack of fit between the skills produced in schools and universities and those required in the work place. Consequently, there is a resurgence of interest in imparting some education to new entrants in the work place rather than at formal educational institutions. Rapid advances in knowledge and technology have made the needs for continuing education more pressing than before.

86. In developing countries, especially the least developed, a major problem has been that education has been unsuccessful in the competition for the allocation of resources. Where the State finances and provides education, limits on the financial and manpower competence of the Government have constrained the development of education. In some countries, the allocation of resources to military and other uses has cost the education field dearly. The rapid reduction of governmental budget deficits has sometimes been at the expense of human resources development. Low real wages to teachers have reduced incentives and the intensity of application to the tasks of teaching in school. The denial of capital expenditure to construct schools, equip laboratories and libraries and provide textbooks and teaching materials has contributed to a reduction in the quality of teaching and to a narrowing of the opportunities for learning.

87. Additional resources for education are to be found from three main sources. First, there are opportunities for reallocation of public funds from sectors that should have a lower priority, particularly the military. Secondly, resources in the private sector, whether channelled through non-profit organizations or for-profit organizations, need to be substantially increased. Finally, there are good opportunities for getting better results from resources currently allocated to education by using appropriate incentives and better management. Additional external financing and aid - with a long-term perspective - can also make a substantial difference, particularly at the higher levels of education.

88. Problems in education are not limited to questions of resource limitations. In many developing countries, there are serious problems of updating textbooks and teaching materials and broadening the founts of knowledge to include advances in the sciences, which have been the fastest growing branches of knowledge for at least 100 years.

F. Reduction of military expenditures and the "peace dividend"

89. The Declaration called for reductions to be made in military expenditure and for exploring the feasibility of channelling some of the reductions through financial mechanisms for development. Since the second half of the 1980s, global military expenditure has indeed fallen, with the reductions being concentrated among the developed market economies and the economies in transition, which together accounted for about 80 per cent of global military expenditure. 33/

90. In the developing countries, the picture has not been so clear. Overall, arms transfers to them have fallen sharply. Yet, in some regions, particularly among the fast-growing economies of Asia, military expenditure has risen. In other areas, especially in Latin America, expenditure fell as a result of democratization and a reduction of inter-State tensions. In other cases where expenditure fell, such as Africa, the Middle East and Asia, the fall in expenditures was either small or related to economic difficulties; it would probably be premature to conclude that military expenditure there is on a definite decline and that social spending will rise proportionately. In sum, there is still considerable scope in many developing countries for reducing their military expenditures and arms imports.

91. There has been no formal transfer at an international level of reductions in military expenditures to development. It would, in any event, have been naive to have expected any such instantaneous transfer, as if military expenditure were just another category of social spending which could be shifted to another category "like shifting money from one pocket to another". 34/ In many cases, the reductions in military budgets simply helped the Government to reduce its budget deficit. 35/ In the short term, the demand-reducing effects of the falls in military expenditure have not been made up by an increased supply of civilian goods coming from the conversion of military facilities. Moreover, the costs of destroying weaponry and remedying the environmental destruction caused in the past by the military have been large. Finally, much of the reduction at a global level has taken place in the former Soviet Union, where the benefits of any potential peace dividend have been overwhelmed by the temporary economic difficulties experienced in making the transition to a market economy.

92. Many of the major military powers still see the security situation facing them as uncertain, even after the end of the Cold War. The spread of missile technology and of the means to manufacture weapons of mass destruction has increased their reluctance to engage in further substantial reductions in military expenditure. While it would, then, be unrealistic to expect major flows of funds to development purposes to come from further reductions in military expenditure in the major Powers, if those reductions were accompanied by appropriate public policies, their long-term growth should increase. This in itself would not only benefit the rest of the world economy but also improve the atmosphere for development cooperation. A reconfiguration of military forces could make it considerably easier for countries to respond more rapidly and effectively to calls from the international community for humanitarian help and assistance in peace-keeping operations.

X. ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

93. Although both the IDS and the Declaration contain only broad guidelines regarding international cooperation in the protection of the environment, global concern and action in that field have intensified tremendously since their adoption. The United Nations Conference on Environment and Development (UNCED), held in Rio de Janeiro in June 1992, was a landmark event in the quest by the international community to find solutions to major problems of world-wide

concern that would enable the world to make the transition to sustainable development.

94. The UNCED final documents - namely, Agenda 21, the Rio Declaration on Environment and Development and the Non-legally Binding Authoritative Statement of Principles for a Global Consensus on the Management, Conservation and Sustainable Development of All Types of Forests - together with international conventions on climate change and on biological diversity, which were opened for signature at UNCED, reflect greater understanding and agreement that policies aimed at economic growth and development and the protection and enhancement of the environment are directly interlinked and should be integrated, both at the national and international levels. 36/

95. In a number of areas, encouraging progress has been achieved over the past two years. The two agreements signed at Rio have entered into force, and the International Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa, 37/ was finalized and will be open shortly for signature. The Global Conference on the Sustainable Development of Small Island States, held in Barbados in April/May 1994, resulted in the adoption of the Declaration of Barbados and the Programme of Action for the Sustainable Development of Small Island Developing States. 38/ The Programme's implementation would allow a large group of developing countries to achieve sustainability in their development and would provide others with valuable experiences.

96. The Global Environmental Facility is an important first step in mobilizing funds to assist recipient countries in the implementation of commitments under international agreements envisaged for the Facility.

97. Promising actions were taken at the national level in many countries after UNCED. The elaboration of national sustainable development strategies and action plans and the establishment of national coordination structures to pursue sustainable development goals and objectives provide a crucial institutional, legislative and regulatory basis essential for the successful implementation of Agenda 21.

98. As envisaged, the promotion of a global partnership for sustainable development requires the strengthening of cooperation among Governments and between Governments and intergovernmental organizations, both within and outside the United Nations system, and with the independent sectors, including the business and scientific community, and other non-governmental constituencies. The UNCED process and the follow-up to the Rio Conference have markedly increased the interest and involvement of major groups in United Nations activities in the area of sustainable development and proved that those groups can play an important role in the implementation of the decisions and commitments of the Rio Conference and of the Commission on Sustainable Development.

99. The transition to sustainability depends crucially on an international economy that supports key environment and development goals, effective steps against poverty, changes in consumption patterns and measures to ensure compatibility between demographic dynamics and sustainability. It will also be

important to make trade and environment policies mutually supportive and to promote further an open, equitable and non-discriminatory multilateral trading system consistent with the goals of sustainable development.

100. The concept of sustainable development programmatically developed in the UNCED context remains complex and will need continuing refinement before it can effectively lead to new models of governance and socio-economic organization systems. In all countries, the promotion of sustainable development approaches at the national level requires difficult choices among many pressing economic and social priorities.

101. Current economic and financial circumstances around the world make it unlikely that adequate new and additional official financing for sustainable development will be readily available. The Commission on Sustainable Development expressed its concern that the current availability of financial resources for sustainable development and the limited provision of adequate and predictable, new and additional financial resources will constrain the effective implementation of Agenda 21 and could undermine the basis of the global partnership for sustainable development. The Commission stressed that the goal of mobilizing financial resources for sustainable development makes it necessary to act on all possible fronts, seeking domestic and international sources, developing innovative approaches and instituting national policy reforms.

102. It is crucial that specific initiatives should be launched in a number of the areas dealt with in Agenda 21 in order to give practical expression to principles of partnership between countries and between Governments and major groups which underlie Agenda 21. Progress towards sustainable development is essential in achieving the goals and objectives of the IDS and the Declaration.

XI. DEVELOPMENT OF THE LEAST DEVELOPED COUNTRIES

103. The problems of the 47 countries officially designated as least developed by the United Nations, accounting for half the total number of developing countries but only just over 10 per cent of their population, represent some of the major challenges of development. The Declaration recognized this, and the IDS fully endorsed the Programme of Action for those countries for the 1990s, adopted at the Second United Nations Conference on the Least Developed Countries, held in Paris in September 1990. 39/ Since almost 70 per cent of those countries are in Africa, they epitomize to a great extent the special problem of long-term development there.

104. In recent years, the least developed countries as a whole have been growing at less than a third of the average rate of growth of all developing countries, and the difference between the two rates appears to have been increasing. The growth of total output in those countries slowed from 2.3 per cent during the 1980s to around 1 per cent during 1990-1993, 40/ while the developing countries as a whole grew at a rate of 3 per cent in the 1980s and at 4.5 per cent in the latter period. However, regional differences are significant. In Africa, output in the least developed countries declined at a rate of 0.3 per cent during 1990-1993, while in Asia growth averaged over 3 per cent a year. The

medium-term outlook of many of the least developed countries in Africa appears dim in the absence of some extraordinary efforts.

105. In a number of the least developed countries, efforts have been made at structural adjustment and reform, with uncertain results. Political unrest and ethnic violence have been rife in a large number of the countries, rendering impossible the formulation and implementation of policies for long-term development; but peace has returned to some countries. Falling commodity prices have tended to erode the value of exports and real incomes, while in most countries efforts at diversification have made little headway.

106. Some of the least developed countries are also highly indebted. The recent initiative at debt restructuring and relief under the Paris Club, described above, have benefited mainly the least developed countries. The short-term benefits have in general been small, though by no means insignificant. Those countries are also highly dependent on ODA which has been growing only slowly, and their share in the total ODA to developing countries has remained practically unchanged in recent years. Little progress has been made towards the ODA target of 0.15 per cent of donor country GNP. In 1992 the ratio averaged 0.08, although a number of individual donors have reached or exceeded the target.

XII. THE ROLE OF THE UNITED NATIONS SYSTEM

107. The IDS warned that it must be expected that conditions in the course of the decade would change in ways that could not be foreseen. Indeed two major changes have occurred over the past four years that have had and continue to have considerable repercussions for the work of the United Nations system in implementing the IDS.

108. The first is the rapid escalation of internal conflicts and civil strife. The IDS could not anticipate such crises. Although the majority of countries are not affected by such conflicts, the sheer magnitude of resources required to deal with humanitarian and emergency assistance has posed and continues to pose an enormous drain on the already scarce resources of the United Nations system. Increasingly large proportions of budgets have to be diverted to urgent needs, leaving fewer resources for addressing long-standing development objectives as espoused in the IDS.

109. The second unforeseen development is that the transition from a centrally planned to a market-based system has proved considerably more difficult than originally envisaged. The IDS took the rather optimistic view that the reform and restructuring of the economies of Eastern Europe and their integration into the world economy could contribute to the strength and dynamism of world trade. Although, in the long run, a successful integration of the transition economies into the world economy will no doubt be a new source of dynamism, as the immediate problems of their political, economic and social transformation persist, the United Nations system, including some of its regional commissions, continues to be called upon to provide advice and assistance in the transformation process. In 1993, the systemic transformation facility (STF) was

introduced at IMF to enhance its ability to play a role in helping the transformation of the formerly centrally planned economies.

110. In view of the above conditions, it is remarkable that none the less considerable progress has been made by the United Nations system in attaining its various goals and targets, despite reduced resources and increased demands. Although improvements have not been universal - Africa and the least developed countries being important exceptions - and much has been achieved through the efforts of developing countries themselves, the United Nations system has continued to play a significant role, sometimes catalytic, sometimes instrumental, in accomplishing the objectives of the IDS. It is important to note that the IMF membership has agreed to enlarge and extend the concessional facility for low-income countries, the enhanced structural adjustment facility (ESAF), on the basis of subsidy contributions from a broad section of the membership. However, the situation regarding the issue of allocation of SDRs is of concern. There has not been an SDR allocation since 1981 and, at the present time, the reserves of many developing countries and countries in transition are clearly inadequate.

111. Yet, in a period marked with deep economic and social tensions and ethnic, religious and territorial conflicts, the United Nations system has continued to help countries sustain and strengthen achievements in poverty and hunger alleviation, human resources development, population, extending access to employment, including self-employment, food security and nutrition, education and health, including maternal and child health care, adopting and implementing housing strategies, national capacity building, transport and communications infrastructure and the production sectors. Assistance is also provided to countries that are liberalizing their economies.

112. Most of these actions follow the priority aspects of development as identified in the IDS, and many of them are based on already agreed international norms, standards, goals, and targets, contained in such strategies as Health for All by the Year 2000, World Declaration on Education for All, Global Strategy for Shelter to the Year 2000, and the World Declaration on the Survival, Protection and Development of Children. Various new meetings, held during the past two years, have addressed a wide range of sectoral interests. Those meetings have further refined existing agreements and added new goals and targets to be attained by the international community.

113. Perhaps the singularly most important event for the United Nations system since the last review and appraisal of the IDS was the Earth Summit in Rio and the adoption of Agenda 21. That wide-ranging document touches and elaborates on many aspects of the IDS. It has given the United Nations system further and more precise goals and objectives and a strong impetus for cooperation and coordination. Virtually all entities of the United Nations have now incorporated sustainable development into their work programmes, and the establishment of the Inter-agency Committee on Sustainable Development has proved a valuable mechanism for cooperation and coordination. A major development following UNCED was the establishment of the Commission on Sustainable Development, which is mandated to examine the implementation of Agenda 21 and other outcomes of UNCED at the national, regional and international levels, and of the High-level Advisory Board on Sustainable

Development, which will provide the Secretary-General and, through him, the Commission on Sustainable Development and other relevant United Nations bodies with high-level advice on the broad spectrum of issues involved in sustainable development. In April 1993 the Interim Committee of the IMF adopted the Declaration on Cooperation for Sustainable Global Expansion which sets out a cooperative agenda of national and multilateral policy actions to promote sustainable growth.

114. Another important, more recent, event, the implications of which for the United Nations system are at this point too early to assess, has been the decision to establish the World Trade Organization (WTO) as a result of the successful conclusion of the Uruguay Round. The mandate of the WTO includes, inter alia, the question of coherence in global economic policy-making. To that effect the WTO will cooperate with IMF and the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies. The establishment of the WTO should fill an important gap and introduce a key new partner in the United Nations system.

115. A number of other major gatherings are planned during the next two years, all of which will provide greater focus on issues contained in the IDS. The International Conference on Population and Development, the World Summit for Social Development, the Fourth World Conference on Women, and the United Nations Conference on Human Settlements (Habitat II) will be concluded before the next review and appraisal of the IDS, in 1996. All those meetings give further evidence of the United Nations system's commitment to social and economic development in all parts of the world.

116. Still, it has to be recognized that, in the pursuit of the objectives of the IDS, the scale of needs is such that the impact of the work of any United Nations agency can never be commensurate with the needs to be addressed, unless the effort is coordinated with, or can open the way for, private involvement, including funding, from national as well as international sources. This puts a premium on strategic interventions on the part of United Nations bodies and organizations which can leverage additional funding and investment from both private and public sources. This is especially important in the face of the tightness of resources available to the United Nations system at a time of increasing supplies of private financing.

Notes

1/ General Assembly resolution S-18/3; reproduced in World Economic Survey, 1990 (United Nations publication, Sales No. E.90.II.C.1), pp. 7-10.

2/ General Assembly resolution 45/199.

3/ A/47/397 on the Declaration and A/47/270-E/1992/74 on the Strategy.

4/ Assessments of developments in specific economic and social areas and of policies recommended in the Declaration and the Strategy are carried out on a more or less regular basis by various agencies and offices in the United Nations system. The present report draws on those assessments, which include World

Economic Survey, 1993 (United Nations publications, Sales No. E.93.II.C.1); World Economic and Social Survey, 1994 (United Nations publication, Sales No. E.94.II.C.1 and corrigendum); "External debt crisis and development: the international debt strategy as of mid 1993" (A/48/345), September 1993; UNCTAD, The Least Developed Countries, 1993-1994 Report (United Nations publication, Sales No. 94.II.D.4); and the annual assessments of the regional commissions.

5/ For details, see World Economic and Social Survey, 1994 ...

6/ See "Integration of the economies in transition into the world economy: the role of the United Nations" (A/48/317, 4 October 1993) and (A/49/330).

7/ India and Viet Nam are major examples of quick adjustment, while Cuba continues to suffer from the disruption of its traditional trade and aid links.

8/ A World Bank study, Adjustment in Africa: Reforms, results and the Road Ahead (Washington, D.C., 1994), finds a positive relationship between reform and growth. The relationship is, however, not strong and methodological questions arise in the interpretation of the results, as in any study of this nature.

9/ For an assessment of the Uruguay Round, see World Economic and Social Survey, 1994 ...

10/ United Nations Economic Commission for Latin America and the Caribbean, "Open regionalism in Latin America and the Caribbean" (LC/G.1801), p. 8.

11/ Expenditure basis. See World Economic and Social Survey, 1994 ..., table IV.4, p. 97.

12/ Ibid., table A.27, p. 288. The figure for 1990 ($32 billion) was exceptional and largely reflected financial assistance to countries affected by the Persian Gulf crisis. These figures, like all the others, are net of interest payments which, in the case of transfers through official flows, rose from $19 billion in 1989 to $24 billion in 1993.

13/ OECD, Press release SG/Press (94)46, 20 June 1994, table 3. Official development finance differs from official development assistance in that it includes non-concessional lending, including multilateral flows.

14/ OECD, Development Cooperation. 1993 Report (Paris, 1994), p. 83.

15/ OECD, Press release ...

16/ World Economic and Social Survey, 1994 ..., table A.35.

17/ Ibid., table A.36.

18/ Peter Coy, "What's the word in the lab? Collaborate", Business Week (27 June 1994).

19/ John Burton, "High hopes", Financial Times (19 May 1994).

20/ Carl J. Dalhman and Claudio Frischtak, "National systems supporting technical advance in industry: the Brazilian experience", and Morris Teubal, "The innovation system of Israel: description, performance, and outstanding issues", in National Innovation Systems: A Comparative Analysis, Richard R. Nelson, ed. (New York: Oxford University Press, 1993), pp. 414-450, 476-502.

21/ Economic Commission for Africa, "Science and technology for the development of Africa" (E/ECA/CM.20/29), 16 March 1994.

22/ FAO, The State of Food and Agriculture, 1992 (Rome, 1992) and FAO Quarterly Bulletin of Statistics, vol. 6, No. 3 (1993) and vol. 6, No. 4 (1993).

23/ FAO, Food Outlook, No. 3/4 (1994).

24/ FAO, "Global information and early warning system on food and agriculture: food crops and shortages", Special report No. 2 (March/April 1994), p. 2.

25/ See World Economic and Social Survey, 1994 ..., technical note, pp. 239-251; and Report on the World Social Situation, 1993 (United Nations publication, Sales No. 93.IV.2), pp. 81-90, for the most recent statistical data and the difficulties in using these data.

26/ The estimates made by the World Health Organization are quoted from Seth Berkley, Peter Piot and Doris Schopper, "AIDS: invest now or pay more later", Finance and Development (June 1994), pp. 40-43.

27/ The ratio of male adults to female adults infected with HIV is close to 1:1 in the Caribbean and sub-Saharan Africa, compared to 10:1 in eastern Europe and 5:1 in western Europe, according to AIDS and the Demography of Africa (United Nations publication, Sales No. E.94.XIII.11), p. 10.

28/ Economic Commission for Africa, "Socio-economic and demographic consequences of HIV/AIDS in ECA member States" (E/ECA/PSD.8/21), 19 March 1994, pp. 6-10.

29/ AIDS and the Demography of Africa ..., p. ix.

30/ For a fuller discussion of recent population dynamics, see World Economic and Social Survey, 1994 ...

31/ E/CONF.84/13, 14, 15, 16 and 17.

32/ E/1994/64/Add.2.

33/ For an analysis of the economic effects of reductions in military expenditure, see World Economic Survey, 1991 (United Nations publication, Sales No. E.91.II.C.1).

34/ United Nations Institute for Disarmament Research, Economic Aspects of Disarmament as an Investment Process (United Nations publication, Sales No. GV.E.93.0.3), p. 67.

35/ For an analysis of the peace dividend and the possibilities of conversion in the developed market economies, see World Economic Survey, 1992 (United Nations publication, Sales No. E.92.C.II.1).

36/ See Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992, vol. I. Resolutions adopted by the Conference (United Nations publication, Sales No. E.93.I.8).

37/ See A/AC.241/15.

38/ A/CONF.167/9, annexes I and II.

39/ "Report of the Second United Nations Conference on the Least Developed Countries, Paris, 3-14 September 1990" (A/CONF.147/18).

40/ UNCTAD, The Least Developed Countries, 1993-1994 ...